

Arizona State Treasury
Arizona Endowment Fund
Equity Portfolio Manager

Date of Response:	
Name of Firm:	
Contact:	
Title:	
Address:	
Telephone:	
Facsimile:	
E-Mail:	

Part I

PURPOSE, MINIMUM REQUIREMENTS, AND SCOPE OF SERVICES

A. PURPOSE

1. This Request for Qualifications (“RFQ”) is issued by Arizona State Treasurer’s Office (“ASTO”) for the purpose of evaluating the possibility of hiring one (1) or more Equity Portfolio Management firms to provide Portfolio Management services to the ASTO for actively managed equity pool(s). This RFQ is to develop a pool of qualified managers from which to choose, should the determination be made to proceed in this manner. The ASTO currently has insufficient staff and resources to manage such pools internally. The firm(s) may be contracted to provide equity portfolio management, analytic, consulting, and internal skill development services relating to the equity portfolio of the Arizona State Endowment Fund for a period not to exceed three years. At the conclusion of the engagement, it is the intent of the ASTO to have sufficient resources to manage the pool(s) internally.

B. MINIMUM REQUIREMENTS

To be considered as a Manager for the purpose stated above, firm(s) must meet the following minimum requirements as of January 1, 2005.

1. Actively managing public funds in excess of \$500 Million or have experience within the last two years of managing an institutional government sponsored portfolio of at least \$500 Million.
2. Minimum five (5) year track record providing management services to public and private endowments, foundations or pensions.
3. If using a team approach to provide services, at least 1/2 of the Portfolio Management team must have worked for the same organization for the last five years.
4. Have an office in, or a team member who is a full-time resident of, the State of Arizona.

C. OVERVIEW

The Permanent Endowment Fund was established in the Arizona Constitution under Article 10, Section 7. The Arizona Constitution requires the Treasurer to deposit and track the proceeds of land sales in the endowment fund according to the grant under which the land was conveyed to the State. As originally established, the permanent endowment fund was restricted to investing in fixed-income type investments. The amount distributed was based upon the net distributable income from the trust corpus.

The ability to invest the permanent endowment funds in equities was taken to the voters in 1998. As amended, the Arizona Constitution mandates annual distributions based upon real returns, adjusted by inflation, as measured by the GDP deflator. The BOI has a desire to meet three objectives: (1) provide a predictable, stable stream of earnings to

fund participants; (2) ensure the purchasing power of this revenue stream does not decline over time; and (3) ensure the purchasing power of the endowment assets is not eroded over time. While capital preservation is paramount, appropriate investment in various assets is acknowledged as being warranted to capture satisfactory returns, especially if inflation should resurface. The BOI seeks a “balanced” investment approach under which investment risk is diversified across major asset classes (cash, fixed income securities and domestic common stocks). Equities purchased by the endowment must be prudent, listed on a national stock exchange or through the NASDAQ, and comprise no more than 60% (at cost) of the assets. No more than 5% of the cost basis of assets may be invested in equity issues of the same institution agency, or corporation.

Presently, the Endowment fund has assets of approximately \$1.2 Billion. Projected future sales of trust lands are expected to increase the size of the endowment significantly over the next decade. Currently, assets are allocated on a book value basis with approximately 50% in fixed income and 50% in equities. The equities are invested approximately 74% in a S&P 500 large-cap index portfolio and 26% a S&P 400 mid-cap pool. The S&P 400 index pool invests only in the largest 200 companies of the index. The BOI has approved a S&P 600 pool, but no assets are currently held in the small-cap pool. All assets are managed internally. Due to concerns relating to Global Security Risk, (GSR) the ASTO is evaluating the possibility of adding additional equity pool(s) which would be actively managed in such a manner as to reduce or manage GSR while maintaining performance comparable to the S&P 500 index. Currently, the ASTO does not have the resources and staff to undertake such a venture. The ASTO wishes to explore the possibility of outside manager(s) providing the services as outlined in the following section.

D. SCOPE OF SERVICES

The firm(s) will be required to provide the following scope of services to the ASTO:

1. Accept management fees not to exceed .08% paid quarterly in arrears on the amount of the mandate (amount(s) yet to be determined).
2. Manage portfolio and coordinate with designated staff to develop scalable portfolio management processes for a period not to exceed three years.
3. Manage portfolio in accordance with restrictions based on statutes and ASTO internal policies relating to concentration limits, Global Security Risk concerns, and the ASTO Investment Policy.
4. Participate in ASTO trading team meetings on a weekly basis.
5. Provide additional services as requested by the ASTO.

The scope of services defined in the final contract between ASTO and the firm(s) will be binding and will supersede this section of the RFQ if different from the scope of services defined here.

Part II

ADMINISTRATIVE INFORMATION

A. INSTRUCTIONS FOR SUBMITTING RESPONSES

1. Firms responding to this RFQ must provide answers to the questions posed in Part III of this RFQ. All responses must be complete in every respect and must answer concisely and clearly all questions proposed by the RFQ. Late responses will not be accepted.
2. Responses shall be submitted with a cover letter stating that the firm meets all of the minimum requirements listed in Part I.B of this RFQ, and that the firm is able and willing to provide the type and level of services required to fulfill the scope of services proposed in this RFQ. The cover letter and the offer made by the response, and any clarifications to that response, shall be signed by an officer of the offering firm or a designated agent empowered to bind the firm in a contract. The cover letter must also identify any sections of their response that the firm is identifying as confidential. (See Disclosure of Response Content below.)
3. Responses should follow the order of questions as they are asked in Part III of this RFQ. In response to each question asked in Part III, restate the **main** question (denoted by a number or a letter) in bold font followed by your answers stated in regular font. Responses should be thorough and answer the specific question asked, (including the issues addressed in the bullet points following a question).
4. Supporting material must be clearly referenced to the appropriate question. Information and materials which are strictly promotional in nature should not be used.
5. Any communication by the firm or firm's agents with the BOI members during the selection process will result in disqualification from this search. Any contact with ASTO staff, beyond information requests or clarifications directly related to this search, will result in disqualification from the search. Firms will be given the opportunity to submit written requests to ASTO for clarification of questions or terms contained in the RFQ. In all cases, verbal communications will not override written communications.
6. Responses must be submitted no later than 4:00 p.m. MST, March 25, 2005
.
7. A firm must submit five (5) hardcopies of their response to ASTO at the following addresses:

Five copies to:

Arizona State Treasurer's Office
1700 W. Washington
Phoenix, AZ 85007
Attn: E. Blaine Vance, Deputy Treasurer

In addition, the firm must provide a complete electronic version of its response to ASTO on a CD. The firm's name must appear visibly printed on the CD.

A. REJECTION OF RESPONSES

1. Firms responding to this RFQ must restrict their proposed investment structure to that specified in this RFQ. Alternate or substitute structures will be rejected.
2. ASTO reserves the right to reject any or all responses in whole or in part received by this request, due to noncompliance with the requirements of this RFQ or for any other reason. ASTO will not pay for any information herein requested, nor is it liable for any costs incurred by the submitting firms.
3. Firms whose responses do not meet the mandatory requirements will be so notified. After evaluation of the responses, selection, and approval by ASTO, all respondents will be notified of the successful firm.
4. ASTO reserves the right to not hire or to defer the hiring of a firm for these services.

B. DISCLOSURE OF RESPONSE CONTENT Trade secrets or proprietary information that are recognized as such and protected by law may be withheld from public disclosure, but only if designation of such sections is stated in proposing firms' cover letters and confidential information is clearly identified as such on each of the applicable pages within the body of the response.

C. RESPONSE OBLIGATIONS The contents of the response and any clarifications thereto submitted by the successful firm shall become part of the contractual obligation and will be incorporated by reference into the ensuing contract.

D. SIGNATURE OF RESPONDENT'S AGENT The offer made by the response, and any clarifications to that response, shall be signed by an officer of the offering firm or a designated agent empowered to bind the firm in a contract.

E. ASTO CONTRACT SIGNATORY E. Blaine Vance, Deputy Treasurer.

F. AWARD OF CONTRACT ASTO reserves the right to award this contract not necessarily to the firm with the lowest fee and cost proposal, but to the firm which will provide the best match to the requirements of the RFQ. The successful Advisor will be determined in accordance with the evaluation criteria defined by ASTO

G. EVALUATION OF RESPONSES An Evaluation Committee will meet to evaluate and score the responses. Upon completion of the Evaluation Committee's evaluation, finalist interviews will be, and office visits may be, conducted with some candidate firms. Determination of whether to conduct interviews and which firms to interview is at the sole discretion of the Evaluation Committee. A determination to execute a contract may be made by the ASTO Evaluation Committee without an interview. ASTO's Evaluation Committee will make the recommendation for final firm selection to the Arizona State Treasurer.

H. EVALUATION CRITERIA Responses will be evaluated using the following criteria:

- | | | |
|------|---|-----|
| I. | The Firm's Organization and Staff Qualifications | 25% |
| II. | The Firm's Portfolio Management Style and Process | 25% |
| III. | The Firm's Relevant Experience | 20% |
| IV. | The Firm's Resources | 10% |
| V. | The Firm's Fee Level | 20% |
- I. THE RESULTING CONTRACT The contract between ASTO and the firm shall be a combination of the specifications, terms and conditions of the RFQ, any written clarifications or changes made to this RFQ, the offer contained in the successful response, and any additional contractual terms and conditions agreed to mutually and in writing by the parties.
- J. TERM OF CONTRACT The initial contract shall be for a one-year period from the date of its execution, with two, one-year extensions. Total contract shall not exceed three years. The resulting contract may be terminated at ASTO's discretion, with or without cause, after thirty (30) days written notice to the firm.
- K. FIRM CONTRACT REQUIREMENTS
1. Contract: Any contract between ASTO and the successful firm will follow format specified by ASTO and will contain the Arizona Department of Administration's ("ADOA") standard terms and conditions for professional services contracts. The contents of the RFQ as revised and/or supplemented and the successful firm's response will be incorporated into the contract.
 2. Contract Deviation: Any additional terms and conditions which may be the subject of negotiation will be discussed only between ASTO and the successful firm and shall not be deemed an opportunity to amend any firm's response.
 3. Duration of Contract Term: The term of the contract is expected to be for a period of one year, with annual evaluations.
 4. Termination: The contract may be terminated by either of the parties thereto upon written notice delivered to the other party at least 30 days prior to the intended date of termination.
 5. Status of the firm: The firm, its agents and employees, are independent contractors performing professional services for the ASTO and are not employees of the ASTO. The firm and its agents and employees shall not, as a result of this contract, accrue leave, retirement, insurance, bonding, use of state vehicles, or any other benefits afforded to employees of ASTO or the State of Arizona.
 6. Assignment: The firm shall not assign or transfer any interest in the contract or assign any claims for money due or to become due under the contract.
 7. Subcontracting: The firm shall not subcontract any portion of the services to be performed under the contract without the prior written approval of the ASTO.

8. Records and Audit: The firm shall maintain records in sufficient detail to fully describe the services rendered during the term of the contract. These records shall be subject to inspection by the ASTO, DOA, and the State Auditor for a period of five years after the termination of the contract. ASTO shall have the right to audit billings both before and after payments; payment under the contract shall not foreclose the right of the ASTO to recover excessive or illegal payments.
9. Release: The firm, upon termination of the contract, shall release the ASTO from all liabilities, claims and obligations whatsoever arising from or under the contract. The firm agrees not to purport to bind ASTO, unless the firm has express written authority to do so, and then only within the strict limits of that authority.
10. Confidentiality: Any information provided to or developed by the firm under this contract shall be kept confidential and shall not be available to any individual or organization without the prior written approval of the ASTO, unless otherwise required by law.
11. Product of Services; Copyright: All written materials developed or acquired by the firm under this contract shall become the property of the ASTO and shall be delivered to the ASTO no later than the final termination date of this contract. Nothing produced in whole or in part by the firm under this contract shall be the subject of any application for a copyright by or on behalf of the firm without the prior written approval of the ASTO.
12. Conflict of Interest: The firm warrants that it presently has no interest, and shall not acquire any interest, directly or indirectly, which would conflict in any manner or degree with the performance of services required under this contract. Pursuant to A.R.S. 38-511, the State, its political subdivisions or any department or agency of either may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the State, its political subdivisions, or any of the departments or agencies of either if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any of the departments or agencies of either is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. A cancellation made pursuant to this provision shall be effective when the firm receives notice of the cancellation unless the notice specifies a later time.
13. Amendment: The contract shall not be altered, changed or amended except by an instrument in writing executed by the parties.
14. Merger: The contract shall incorporate all of the agreements, covenants, and understandings between the parties thereto concerning the subject matter thereof. No prior agreement or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in the contract.
15. Applicable Law: The contract shall be governed by the Laws of the State of Arizona.
16. Waiver: No waiver of any breach of this contract or any of the terms or conditions thereof shall be held to be a waiver of any other subsequent breach; nor shall any waiver

be valid or alleged or binding unless the same shall be in writing and signed by the party alleged to have granted the waiver.

17. Standard of Care/Indemnification: The firm holds itself out as an expert in the investment of large trust or investment funds. The firm represents itself as being possessed of greater knowledge and skill than the average man. Accordingly, the firm is under a duty to exercise a skill greater than that of an ordinary man and the manner in which the firm carries out its duties under the contract will be evaluated in light of the firm's superior skill. The firm shall wholly indemnify ASTO against any and all losses, damages, costs, expenses, legal fees, and liability resulting from investment advice and other services provided under the contract that are not made in accordance with the provisions contained in this contract, investment advice not made in accordance with the law applicable to the Funds for which investment advice is rendered, and advice not made in accordance with the standard of care set forth in this paragraph.
18. Non-availability of funds: Every payment obligation of the State under this contract is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of this contract, this contract may be terminated by the State at the end of the period for which funds are available. No liability shall accrue to the State in the event this provision is exercised, and the State shall not be obligated or liable for any future payments or for any damages as a result of termination under this paragraph.
19. Non-discrimination: the form shall comply with Executive Order 99- 4 which mandates that all persons, regardless of race, color, religion, sex, age, national origin or political affiliation, shall have equal access to implement opportunities, and all other applicable State and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. The firm shall take affirmative action to ensure that application applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.
20. Arbitration: the parties to this contract agree to resolve all disputes arising out of or relating to this contract through arbitration, after exhausting applicable administrative unit review, to the extent required by A.R S. 12-1518 except as may be required by other applicable statutes.
21. Third-party Antitrust Violations: The firm assigns to the State any claims for overcharges resulting from antitrust violations to the extent that such violations concern materials or services supplied by third parties to the firm toward fulfillment of this contract

SCHEDULE OF EVENTS

1. **March 4, 2005** – OFFICIAL RFQ ISSUE DATE

2. **March 10, 2005** - INQUIRIES - Inquiries and requests for interpretation or clarification of the RFQ from potential responders will be accepted only in writing, as e-mailed, and only if received no later than 4:00 p.m. MST, March 10, 2005. E-Mail requests to:

Arizona State Treasurer's Office

Attn: E. Blaine Vance, Deputy Treasurer

E-Mail: blainev@aztreasury.gov

3. **March 11, 2005** – RESPONSE TO INQUIRIES - Responses to, and addenda resulting from, requests for interpretation shall be posted, no later than 6:00 p.m. MST on the ASTO website: www.aztreasury.gov
4. **March 25, 2005** – RESPONSES DUE - Responses must be received by **4:00 p.m.** MST.

Part III
QUESTIONNAIRE

In addition to the completing this questionnaire, please provide the following:

- organizational chart
- biographies of the firm's key principals, executives and investment staff (years with the firm, investment experience, age, education, etc.)
- a spreadsheet containing the applicable historical performance for all ERISA / Public funds advised since inception.
- examples of any reports that you commonly share with your Portfolio Management clients (e.g., position reports, risk/exposure reports, asset allocation reports, optimization reports, etc.)
- Copy of ADV Part II

DATE:

I. CONTACT INFORMATION

Firm domicile / jurisdiction	
Legal headquarters address	
Headquarters address	
Headquarters phone	
Headquarters fax	
Satellite offices (city/country) and functions	

	Name	City	Phone	E-mail
Key contact person				
Person completing questionnaire				
Head of client relations				
Chief Executive Officer				
If Applicable:				
Chief Investment Officer				
Chief Operating Officer				
Chief Financial Officer				
Head of Risk Management				

II. PEOPLE & ORGANIZATION

(a) Firm structure & management

- 1 Please describe the history of your firm.
e.g., Who were the founders of the firm, and are they still active? How long has the primary Portfolio Management team been together? etc.
- 2 Does the firm have any affiliates and/or related entities? If so, describe the relationship and the % equity of the firm that is owned by affiliates/related entities.
- 3 What is the ownership structure of your organization, including names of the firm's principals and % equity ownership in the firm? Please elaborate on the financial stake that your principals and management team have in your firm.
- 4 Are any principals involved in other businesses? If so, how much time is devoted and what is the nature of the business?
- 5 Are any of the principles or key staff related? Does the firm do business with outside vendors with family connections?
- 6 What are the current and future priorities for the firm? (e.g., increase staffing, implementing new trading strategies/programs)

(b) Key Personnel

- 1 List all key NON-management staff (e.g., CFO, COO, head of risk, etc), including number of years with the firm and prior experience.
If your firm bios cover this information, please attach as a separate document.
- 2 List all key management staff, including number of years with the firm and prior investment experience.
If your firm bios cover this information, please attach as a separate document.
- 3 How is your firm marketed? Who is primarily responsible for marketing? Do you pay commissions to external sales agents?
- 4 Have any senior personnel left or joined the firm within the last 2 years? If so, please indicate when and why they left, where they went and describe the positions of any new people hired?

(c) List Your Regulatory Registrations

	Year Registered	Any issues / violations?
Commodity Pool Operator?		
Commodity Trading Advisor?		
Investment Advisor? (1940 Act, SEC Form ADV)		
Investment Company?		
Broker-Dealer or Introducing Broker?		
Futures Commission Merchant?		
Other: specify		

(d) Compliance

- 1 Who handles compliance issues? (e.g., CFO, internal general counsel, internal compliance officer)
- 2 Are your financial statements reviewed/audited by external auditors? Please elaborate on any material issues from the past 3 years audits.
- 3 Has your firm changed auditors over the past 3 years? If so, explain the reason for the change and provide the name of the predecessor auditor.
- 4 Are there any lawsuits or criminal, legal, regulatory, arbitration or administrative proceedings pending or threatened against the firm (or any predecessor firms) or any of its principals, or have there ever been any? Has the firm or any of its employees had any disputes over non-compete, non-disclosure, or similar covenants? If so, please explain.
- 5 How do you ensure compliance with conflict of interest issues?
- 6 Please describe any relationships you have which could be conceived as having the potential for a conflict of interest?

III. Portfolio Management

1	Describe the firm's portfolio management process
2	Describe the qualitative and quantitative criteria used in the portfolio management process.
3	What type of information/support from the ASTO will be required to complete the Portfolio Management engagement?
4	Have you reviewed and understand the ASTO investment policy?
5	Are there any items not covered in the section above which may be material to the engagement process?

IV. AUDIT, LEGAL & ADMINISTRATION

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

INDEPENDENT AUDITOR		Year of first audit of your firm by this auditor:
Name		
Company		
Position / Title		
Phone Number		
Address		

LEGAL COUNSEL – ONSHORE	
Name	
Company	
Position / Title	
Phone Number	
Address	

LEGAL COUNSEL – OFFSHORE	
Name	
Company	
Position / Title	
Phone Number	
Address	

V. PROFESSIONAL AND CLIENT REFERENCES

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

REFERENCE #1	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #2	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #3	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #4	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #5	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #6	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #7	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

VI. MOST RECENTLY ACQUIRED CLIENTS

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

CLIENT REFERENCE #1	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #2	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #3	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #4	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #5	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #6	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #7	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	